

Strategic Objective Grant Agreement (SOAG)

SOAG Principal Text

USAID Grant Agreement No. SOAG-306-05-00 for
USAID Strategic Objective No. 306.005

STRATEGIC OBJECTIVE GRANT AGREEMENT
BETWEEN THE
UNITED STATES OF AMERICA
AND
THE ISLAMIC REPUBLIC OF AFGHANISTAN
FOR
THE STRATEGIC OBJECTIVE OF A THRIVING ECONOMY LED BY THE PRIVATE
SECTOR

Dated: September 19, 2005

APPN:
BPC:
RCN:

Strategic Objective Grant Agreement

Table of Contents

Article 1: Purpose.

Article 2: Strategic Objective and Results.

Section 2.1. The Strategic Objective.

Section 2.2. Results.

Section 2.3. Annex 1, Amplified Description.

Article 3: Contributions of the Parties.

Section 3.1. USAID Contribution.

Section 3.2. Grantee Contribution.

Article 4: Completion Date.

Article 5: Conditions Precedent to Disbursement.

Section 5.1. First Disbursement.

Section 5.2. Notification.

Section 5.3. Terminal Dates for Conditions Precedent

Article 6: Special Covenants.

Article 7: Miscellaneous.

Section 7.1. Communications.

Section 7.2. Representatives.

Section 7.3. Standard Provisions Annex.

Section 7.4. Language of Agreement.

STRATEGIC OBJECTIVE GRANT AGREEMENT

Dated: September 19, 2005

Between

The United States of America, acting through the United States Agency for International Development ("USAID")

and

The Islamic Republic of Afghanistan, acting through the Ministry of Finance (hereinafter referred to as the "Grantee")

Article 1: Purpose.

The purpose of this Strategic Objective Grant Agreement ("Agreement") is to set out the understanding of the parties named above (the "Parties") regarding their mutual objective to have a thriving economy lead by the private sector in Afghanistan as further described below.

Article 2: Strategic Objective and Results.

Section 2.1. Strategic Objective. The strategic objective (the "Objective") of the development program described in this Agreement is a thriving economy led by the private sector.

Section 2.2. Results. In order to achieve the Objective, the Parties agree to work together to achieve the following six results (each a "Result"):

- (a) Accelerated market-led growth in agriculture;
- (b) Accelerated broad-based, sustainable rural economic development in ways that provide new opportunities for the Afghan population to seek livelihoods in the licit economy;
- (c) Increased incomes through economic growth;
- (d) Stabilized energy services and that are more affordable and accessible
- (e) Expanded and improved access to transportation; and
- (f) Expanded access to water supplies and sanitation.

Within the limits of the definition of the Objective in Section 2.1, this Section 2.2 may be changed by written agreement of the authorized representatives of the Parties without formal amendment to the Agreement.

Section 2.3. Annex 1, Amplified Description. Annex 1, attached, further describes the above Objective and Results. Within the limits of the above definition of

the Objective in Section 2.1, Annex 1 may be changed by written agreement of the authorized representatives of the Parties without formal amendment of this Agreement.

Article 3: Contributions of the Parties.

Section 3.1. USAID Contribution.

(a) **The Grant.** To help achieve the Objective set forth in this Agreement, USAID, pursuant to the Foreign Assistance Act of 1961, as amended, hereby grants to the Grantee under the terms of the Agreement not to exceed TWO MILLION FOUR HUNDRED FIFTY THOUSAND United States ("U.S.") Dollars (\$2,450,000) (the "Grant").

(b) **Total Estimated USAID Contribution.** USAID's total estimated contribution to achievement of the Objective will be U.S. \$2,788,150,868, which will be provided in increments. Subsequent increments will be subject to the availability of funds to USAID for this purpose and the mutual agreement of the Parties, at the time of each subsequent increment, to proceed.

(c) **Unilateral Deobligation.** If at any time USAID determines that its contribution under Section 3.1(a) exceeds the amount which reasonably can be committed for achieving the Objective or Results or activities during the current or next U.S. fiscal year, USAID may, upon written notice to the Grantee, withdraw the excess amount, thereby reducing the amount of the Grant as set forth in Section 3.1(a), or amend Annex 1 to shift USAID funding among Results or activities. Actions taken pursuant to this subsection will not revise USAID's total estimated contribution set forth in Section 3.1(b).

Section 3.2. Grantee Contribution.

(a) The Grantee agrees to provide or cause to be provided all funds, in addition to those provided by USAID and any other donor identified in Annex 1, and all other resources required to complete, on or before the Completion Date, all activities necessary to achieve the Results.

(b) The Grantee's contribution, based on USAID's contribution in section 3.1(a), will not be less than the equivalent of U.S. \$23,900,000, including in-kind contributions. The Grantee's Total Estimated Planned Contribution to the Objective will not be less than the equivalent of U.S. \$262,900,000, including in-kind contributions, subject to availability of funds to the Grantee for this purpose, the mutual agreement of the Parties, at the time of each subsequent increment, to proceed, and USAID providing the total estimated amount in Section 3.1(b). The Grantee will report at least annually in a format to be agreed upon with USAID on its cash and "in-kind" contributions.

Article 4: Completion Date.

(a) The Completion Date, which is December 31, 2010, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that

all the activities necessary to achieve the Objective and Results will be completed.

(b) Except as USAID may otherwise agree to in writing, USAID will not issue or approve documentation which would authorize disbursement of the Grant for services performed or goods furnished after the Completion Date.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Implementation Letters, are to be received by USAID no later than nine (9) months following the Completion Date, or such other period as USAID agrees to in writing before or after such period. After such period USAID, at any time or times, may give notice in writing to the Grantee and reduce the amount of the Grant by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Implementation Letters, were not received before the expiration of such period.

Article 5: Conditions Precedent to Disbursement.

Section 5.1. First Disbursement. Prior to the first disbursement under the Grant, or to the issuance by USAID of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to USAID in form and substance satisfactory to USAID:

(a) An opinion of counsel acceptable to USAID that this Agreement has been duly authorized or ratified by, and executed on behalf of the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms; and

(b) A statement in the name of the person holding or acting in the office of the Grantee specified in Section 7.2, and of any additional representatives, together with a specimen signature of each person specified in such statement.

Section 5.2. Notification. USAID will promptly notify the Grantee when USAID has determined that the conditions precedent have been met.

Section 5.3. Terminal Dates for Conditions Precedent. The terminal date for meeting the conditions specified in Section 5.1 is ninety (90) days from the date of this Agreement or such later date as USAID may agree to in writing before or after the above terminal date. If the conditions precedent in Section 5.1 have not been met by the above terminal date, USAID, at any time, may terminate this Agreement by written notice to the Grantee.

Article 6: Special Covenants.

Section 6.1. The Grantee affirms that the Objective and Results agreed to in this Agreement and amplified in Annex 1 reflect the national priorities of the Grantee.

Section 6.2. The Parties affirm that eight core values shall govern the objectives, strategies, approaches, results and activities described in this Agreement: sustainability,

responsiveness, conflict mitigation, gender equity, local context, results orientation, collaboration, and transparency and accountability.

(a) Sustainability. All activities under this Agreement will be designed so that Afghan institutions, communities and individuals “own” the principles, processes and benefits introduced. Projects that will entail construction of infrastructure, reform of processes and procedures, and provision of services will have components that help ensure that Afghans have the capacity needed to carry them on, once USAID assistance is complete.

(b) Responsiveness. USAID is actively engaged in the Grantee’s process of policy formation and planning for the sectors covered by this Agreement. USAID uses systematic means to listen to the Grantee and beneficiary communities in designing and implementing strategies such as those under this Agreement. USAID will seek to send clear messages to beneficiaries about why it is doing the various activities under this Agreement.

(c) Conflict Mitigation. This Agreement recognizes the overriding importance of transforming Afghanistan’s leadership culture into one of conflict prevention, mitigation, and resolution. Conflict mitigation is a cross-cutting objective, built into all activities and results under this Agreement.

(d) Gender Equity. Gender-equity elements are to be built into every aspect of the activities under this Agreement. Strategies and activities will take into account an analysis of how they affect both men and women, girls and boys, and it make extra efforts to improve the status of women in many communities and institutions.

(e) Local Context. Special effort will be made by the Parties to ensure programming under this Agreement that integrates the delivery of services at the provincial level. The Parties will use all means available including the involvement of sector specialists, USAID Field Program Staff (in Provincial Reconstruction Teams) and other implementation partners working at the local level to ensure that activities reach beneficiaries at the local, provincial level.

(f) Results Orientation. The Parties agree to work together to use systems and structures that help staff and partners manage programs effectively and efficiently. An ability to adjust systems and structures when appropriate will enable the Parties to achieve results within agreed-upon schedules.

(g) Collaboration. Close collaboration with development partners will enable the Parties to reach their mutual goals and objectives under this Agreement. This includes working with donor and lender agencies and organizations in Afghanistan.

(h) Transparency and Accountability. The Parties agree to follow standards and regulations that ensure transparency and accountability. The Parties will endeavor to work in an honest, open, and direct manner with all partners.

Section 6.3. Subcommitting, Subobligating and Disbursing Grant Funds. With respect to disbursements made under this Agreement, after satisfaction by the Grantee

of the Conditions Precedent set forth in Section 5.1, the Grantee hereby agrees that USAID may subcommit, subobligate and disburse Grant funds available under Section 3.1(a), whether such use covers Foreign Exchange or Local Currency Costs described in Annex 2 ("Standard Provisions") hereof or otherwise, so long as such actions and disbursements are consistent with the terms and conditions of Annex 1 ("Amplified Description") hereof without any further approval or concurrence. USAID shall periodically inform the Grantee of all disbursements directly made by USAID under this Agreement, providing the Grantee with the amount(s) and purpose(s) of such disbursement(s). Prior approval of the Grantee, however, shall be required, for all disbursements of Grant funds made directly to the Grantee for, by way of example and not limitation, financing host country contracts let by the Grantee to achieve the Objective and Results.

Article 7: Miscellaneous.

Section 7.1. Communications. Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram, telefax or cable, and will be deemed duly given or sent when delivered to such Party at the following address:

To USAID:

Mail Address:

Office of the Director
United States Agency for International Development
Compound Across from the U.S. Embassy
Great Masood Road
Kabul, Afghanistan

To the Grantee:

Mail Address:

Chief of Staff Office
Ministry of Finance
Pashtunistan Maidan
Kabul,
Islamic Republic of Afghanistan

Fax: 0093-20-2103258

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice.

Section 7.2. Representatives. (a) For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the Office of the Minister of Finance. The authority of the Minister of Finance shall not be delegated outside of the Ministry of Finance with respect to amendments to the SOAG as well as other responsibilities set forth for the Ministry of Finance in Annex 1. Within ninety (90)

days from the date of this Agreement, or such later date as agreed to in writing by USAID, the Grantee shall designate the Ministry or Ministries and responsible officers within such Ministries responsible for coordinating with USAID on specific technical implementation matters related to each of the six Results listed in Section 2.2 of this Agreement. USAID will be represented by the individual holding or acting in the Office of Director, USAID/Afghanistan. Each representative, by written notice, may designate additional representatives for all purposes for which such representative is responsible.

(b) The names of the representatives of the Grantee, with specimen signatures, will be provided to USAID, which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

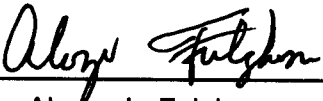
Section 7.3. Standard Provisions Annex. A "Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement.

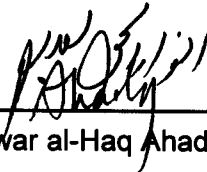
Section 7.4. Language of Agreement. This Agreement is prepared in both English and Dari. In the event of ambiguity or conflict between the two versions, the English language version will control.

IN WITNESS WHEREOF, the United States of America and the Grantee, each acting through its duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

UNITED STATES OF AMERICA

ISLAMIC REPUBLIC OF AFGHANISTAN

By: 
Name: Alorzo L. Fulgham
Title: Director, USAID Mission to Afghanistan

By: 
Name: Anwar al-Haq Ahady
Title: Minister of Finance

SOAG Annex 1**Amplified Description****I. Introduction**

This annex describes the activities to be undertaken and the results to be achieved with the funds obligated under this Agreement. Nothing in this Annex 1 shall be construed as amending any of the definitions or terms of the Agreement.

II. Background

This amplified project description includes details of the three major technical areas covered under this Agreement for the Objective "A Thriving Economy led by the Private Sector." The three technical areas include, "Rehabilitating the Rural Economy", "Increasing Incomes through Economic Growth", and "Expanding and Improving Access to Economic Infrastructure".

A. Rehabilitating the Rural Economy

The Grantee has three core ministries tasked to implement agriculture related programs and projects. These are: the Ministry of Agriculture, Animal Husbandry and Food, Ministry of Energy and Water and the Ministry of Rural Rehabilitation and Development.

In addition, the World Bank, the Asian Development Bank, UNDP, UNEP, the Food and Agricultural Organization, European Commission, Australia, China, Denmark, Finland, France, Germany, Italy, Japan, Kuwait, Netherlands, Norway, Switzerland, Turkey, United Kingdom and U.S. are providing assistance in the agriculture and natural resources sectors of Afghanistan. These donors collaborate in addressing the emergency needs of drought stricken farmers, rehabilitation of damaged irrigation systems, development of alternative livelihoods and institutional reforms to enhance the capacities of the ministries to develop and implement programs and activities for the reconstruction of the country. External assistance has been and needs to continue to be allocated in accordance with the priorities of the government and worked out such that duplication is avoided.

In addition to the other agriculture related programs and projects, the Grantee considers the elimination of poppy growing and opium marketing a top priority.

B. Increase Incomes Through Economic Growth

The economic governance portion of this Agreement focuses on those aspects of economic reform considered to be most important in moving the economy towards competitive markets, focusing first on ministries in government that control essential economic functions, including fiscal policy and administration, central banking, trade policy, and regulation of industry, and then addressing private sector development more directly, through privatization of land and enterprises; development of industrial parks; identification of potential industry clusters; the initiation of more private sector friendly, pro-growth policies; the beginnings of a modern competition policy that reduces the role of government in the commercial sphere; the start of a program to remove and simplify administrative constraints to

establishing and operating a business; the provision of training and resources for establishing business networks and business associations; and, finally, increased resources targeted to expanding the availability of credit and to financial deepening.

Several goals underlie the Grantee's economic growth strategy. First, according to the National Development Framework (NDF), the government of Afghanistan envisages that growth of the non-drug economy should be nine percent per year to ensure that there is acceptable, visible economic progress. Second, government policy sees the private sector as the engine of growth and removing obstacles to private sector development is an urgent priority. Third, the need for development of the agriculture sector is paramount, since this sector represents 52 percent of the legal economy and provides livelihood for some 60 percent of the population.

As described in Afghanistan's constitutional Loya Jirga, there are three pillars of the National Development Framework: Trade and Investment, Public Infrastructure, and Rule of Law and Security. These three pillars emphasize the development of human capital, physical infrastructure, and good governance. Thus, developing Afghan human capital and the improvement of governance and transparency are inherent and integral parts of this program's economic growth strategy.

In addition to USAID, additional donors to the financial sector include, DFID, the Swedish International Development Agency, and Germany. Trade is addressed by, in addition to USAID, Germany and Japan. Finally, all of the donors are active in private-sector growth activities, which are represented by a wide range of projects, including women's employment, micro and SME promotion, privatization, business associations, industrial parks, and land titling and registries.

Five major constraints are obstructing Afghanistan's progress towards a competitive market economy: Security; lack of essential physical infrastructure; inadequate institutional framework; lack of modern, free-market policy commitments by the government (including transparency and accountability in government organizations); and lack of human capital.

C. Expand and Improve Access to Economic Infrastructure

1. Energy:

The primary fuel sources for providing power to the public power grids in Afghanistan are (1) hydropower; (2) imported power; and (3) thermal power. Gas in the northern part of the country has significant potential. Gas-powered generation for the north and transmission to Kabul is essential to assure alternative fuel sources for power. Diversification of fuel sources is critical, as singular reliance on hydro power has high risk in drought conditions. In the meantime, there has been an increasing use of generators that rely on imported diesel fuel to operate is apparent throughout the country, including all embassies, contractors, NGOs and Afghan government entities.

Government's primary energy support programs to date are supported with donor funding either directly or through the Afghanistan Reconstruction Trust Fund and the Ministry of Finance.

The power sector is managed by the Ministry of Energy and Water under which an autonomous enterprise, "Da Afghanistan Breshna Moassasa

(DABM)" is the power utility responsible for the operation and maintenance of the country's generation, transmission and distribution of power assets as well as for the sale of power/electricity produced. The power sector is closely linked to its fuel source and water counterparts at the Ministries of Energy and Water and of Mines and Industry.

The oil, gas and coal sector is managed by the Ministry of Mines and Industry under which the Afghanistan State Gas Enterprise is responsible for gas production.

Under the Ministry of Energy and Water, a Renewable Energy Department exists. In addition, the Ministry of Rural Development and Rehabilitation maintains a similar department. The Ministry of Foreign Affairs does not have a particular department for energy but houses an Asian Development Bank advisor on renewable energy and rural economic growth.

2. Transport

The Ministry of Public Works is the primary entity for the Grantee responsible for road and bridge construction, operation and maintenance. The road and highway network includes national, provincial (secondary), rural (tertiary), district center and urban roads. In addition to USAID, other donors have participated in the rehabilitation and construction of the national road network. The World Bank-funded National Emergency Employment Program also uses labor-intensive projects to repair farm-to-market roads. The Grantee's Ministry of Civil Aviation and Tourism (MoCAT) is responsible for the nation's civil aviation infrastructure including operation and maintenance of the international airports at Kabul and Kandahar, four major domestic airports and seventeen regional airports, as well as owning the national airlines and major hotels. Afghanistan currently has no railways and the Amu Darya (Oxus) River is the only navigable river in Afghanistan. The Ministry of Transportation (MOT) also has responsibilities in the transport sector. The MOT manages the government-owned vehicle fleet and regulates the private sector transport industry.

As laid out in the Transport Sector Policy Statement and the Public Investment Program, the goal of the Grantee is to promote national and regional/sub-regional integration, development and security by restoring, expanding and improving roads and highways, civil aviation, and transport services that will allow efficient public and private sector operations in respective areas of competence, strengthen market and international linkages, and create opportunities for the poor to share in the benefits of growth and prosperity, thereby reducing poverty.

3. Water

Development and management of surface water resources is the responsibility of the Ministry of Energy and Water. This includes the development of policies concerning water use and the development of multipurpose water projects for power generation, irrigation and water supply. An independent water resource team of experts has been established to

advise the Grantee on broader water issues including trans-boundary water allocation issues.

The responsibility for identification and development of groundwater resources is spread through a number of ministries and government agencies including the Ministry of Mines and Industry, the Afghan Geological Survey, Ministry of Rehabilitation and Rural Development, and Ministry of Housing and Urban Development.

The two ministries that oversee water supply and sanitation in urban and rural areas are Ministry of Urban Development and Housing (for urban water) and the Ministry of Rural Rehabilitation and Development (for rural water). In addition, in urban areas the Central Authority for Water Supply and Sewerage has overall responsibility for water supply and sanitation.

In addition to USAID, water projects are also funded by the Afghanistan Reconstruction Trust Fund and other donor sources. An urban water supply and sanitation committee (UWSS) composed of donors and implementers also advises on the urban water system. The German-Afghan Financial Cooperation (through KfW) and the World Bank-IDA have also contributed to water projects.

III. Funding

Financial Plan. The financial plan for the Program is set forth in the table attached to this Annex 1. Changes may be made to the financial plan by representatives of the Parties without formal amendment to the Agreement, if such changes do not cause (1) USAID's contribution to exceed the amount specified in Section 3.1 of the Agreement or (2) the Grantee's contribution to be less than the amount specified in Section 3.2 of the Agreement.

IV. Results to be Achieved/Activities/Activity Selection

The objective of a thriving economy led by the private sector is supported by the six results described below, each of which is, in turn, supported by various sub- or intermediate results (each an "Intermediate Result").

A. Result #1: Accelerated market-led growth in agriculture

1. **Development hypothesis.** The economic growth of Afghanistan depends largely on agriculture. Agricultural growth stimulates employment growth in the non-farm sector, and has a vital role in employment growth, poverty reduction, and stimulation of market growth and narrowing of rural and urban income disparities. The program will focus intensively on a few agricultural sub-sectors, with the objective of assisting those sub-sectors to achieve greater productivity, improved quality, and comparative advantages for Afghan products. In the domestic, regional and global economy, competition is ubiquitous; therefore, a full suite of agricultural services must be put in place, in particular, credit programs that meet critical needs for operating and investment capital.

a. Intermediate Result 1: Domestic and international markets for agriculture crops expanded.

The focus for this intermediate result is on high-value crops. Exports of fresh and dried fruits is one of the biggest contributor to Afghan's economy

in the 1970's, contributing 40% to total export earnings, but due to years of conflict and prolonged drought cultivation of horticulture crops, areas under cultivation decreased. Moreover, production for local and international markets is constrained by poor post harvest facilities, lack of irrigation water supplies, lack of improved technical practices and inability to access rural financing and markets. Increasing markets for high-value horticulture crops is a priority.

b. Intermediate Result 2: Productivity of livestock sector increased and its market expanded.

Livestock is an integral part of Afghan rural households. However, the prolonged drought in the 1990s decreased livestock population by about 77% which diminished rural households' assets, food security and capability to generate income. Increasing the productivity of livestock would contribute to poverty reduction in the rural areas since the livestock industry is an important source of food, draught and transport power for agriculture as well as source of savings and income for most Afghan rural households.

c. Intermediate Result 3: Functional rural financial system established.

The country's farming system is characterized by small holders with limited access to credit primarily due to the dearth of capital available for the agriculture sector and the lack of collateral. The program intends to leverage funds from commercial banks, bilateral and multi-donor funds and the private sector. The mechanisms may include SME debt financing, leasing and equity participation.

d. Intermediate Result 4: More efficient agriculture support services (research and extension).

As part of the program activities may continue the work of introducing and teaching improved technologies adaptable to local needs. A particular focus may be those engaged in the production of horticulture crops and livestock. Research and extension activities would, to the extent possible, include as many women and micro enterprises as possible.

e. Intermediate Result 5: Management of renewable natural resources enhanced.

The Parties recognize the importance of responsible use and conservation of natural resources to sustainable agriculture. Under this program environmental activities may be prioritized in areas where there are significant biological and economic values. Reforestation, establishment of tree nurseries for Afghan species, training on improved rangeland and watershed management and information campaign (to increase the understanding of resource users on the importance of protecting and conserving biodiversity to their livelihood) may be some of the activities considered. In each case, an emphasis will be made on community management of natural resources that will incorporate indigenous knowledge and skills in resource use planning and management. This may be accomplished through a multi-sector participatory approach intended to establish partnership with the communities and assuring their ownership of the activities planned and implemented.

B. Result #2: Accelerated broad-based, sustainable rural economic development in ways that provide new opportunities for the Afghan population to seek livelihoods in the licit economy

A large portion of the activities under this result will be focused on provinces in which poppy production is highest. In these provinces, the program will accelerate and intensify those components of the strategy that have a direct bearing on providing alternative livelihoods. These may include building infrastructure (power, transportation) and stimulating industrial development. It may also include the provision, in the immediate term, of a social safety net that keeps people in these provinces from falling into poverty as a result of lost income from poppy production.

1. Development Hypothesis. The most likely strategy for eliminating poppy cultivation is a broad, sound rural economic development strategy that promotes market-led economic growth, strengthens the rule of law and legitimate governance processes, and provides social services, including health and education. Alternative development aims to increase presence and responsiveness of government, community organizations and the private sector to promote the growth of licit economic activities and employment. Accomplishing these objectives requires improved and expanded public services, resource management, community involvement, and strengthened policy and legal frameworks. Activities should improve diversity of economic activity, encourage entrepreneurship and new business creation, attract investment and credit to rural enterprises, and improve the competitiveness and sustainability of economic growth whether the enterprise is agriculture or non-agriculture based. Other areas of improvement may include rural infrastructure, social capital, solidarity of communities in assessing their future, and amelioration of the impact of drought. Among the structural improvements necessary in Afghanistan's rural areas are roads, bridges, electricity, rehabilitation of irrigation systems, water and sanitation systems, and telecommunications. Improvements are also necessary in licit agricultural production, small and medium sized business creation or growth, credit and investment delivery, and market linkages leading to development of district marketing towns as manufacturing and service centers, and job creation.

a. Intermediate Result 1: Accelerate licit economic growth and business activity in selected provinces in which poppy cultivation is thriving.

Up to five categories of activities may be developed (listed here with illustrative activities):

- Public works and infrastructure, to include market town development, access to clean water, electrification, road and transportation improvements, irrigation and irrigation rehabilitation;
- Small and medium-size business development, consisting of manufacturing, skilled crafts, natural resource based industry, agribusiness, and service enterprises in a diversified regional economy, including technical and managerial training, facilitating investment, business services, and market linkages;
- Identify the markets for high value or value added products and assist in their production and marketing.

- Strengthen extension and rural credit systems and agro and small business development.
- Business-enabling environment, cataloging and removing provincial and district administrative constraints to opening and operating a business, such as removing unnecessary approvals, inspections, redundant taxes, difficulties in establishing good title to property, etc.;
- Production of marketable agricultural products by identifying high value crops, strengthening extension and agricultural credit systems, and agro-business development, and
- Credit and financing institutions strengthened or created to serve all economic sectors.

b. Intermediate Result 2: Provide an immediate alternative source of income to poor households whose livelihoods depend, directly or indirectly, on the temporary opium economy.

One of the potential activities under this Intermediate Result may be an immediate-needs program in the provinces targeted for opium poppy eradication. The activity could involve creating labor intensive cash-for-work employment opportunities for those who lose income as they cease to harvest poppies. Certain activities may be negotiated with community leaders and could include some of the following illustrative activities: small-scale village level activities such as repair of irrigation systems, tertiary road maintenance and repair, land leveling, cleaning of canals and other village identified activities, or employment activities for women in horticultural production, handicrafts, and community gardens. Additional activities may involve assistance with the distribution of food, seeds, tools, and fertilizer to farmers shifting away from poppy crops. A social safety net program may also be considered in order to help destitute households in the region. This component of the program should decline by 2007.

C. Result #3: Increased incomes through economic growth

1. Development Hypothesis: The underlying development hypothesis to achieve this result is that the best way to create prosperity and sustainable jobs and to reduce poverty is to promote growth of individual businesses, primarily through development of a competitive market economy. Policy reforms pursued in partnership between the public and the private sectors are more successful in identifying impediments and in designing reforms than will the provision of technical assistance directly only to state institutions. Included with this is the need to increase the private sector's role and decrease the government's role in the economy.

Second, improving financial institutions helps mobilize capital and increases access to financial services. Also, expanding and broadening the outreach of microfinance and rural finance spreads the benefits of growth to a broader range of the vulnerable population, especially women, in both urban and rural areas.

Finally, competitiveness can be stimulated by removing administrative barriers and constraints that prevent enterprises from entering the market and by focusing on products and services demanded by markets.

As part of this program efforts will be made to strengthen competitive markets and growth, which form the base upon which a stable and sustainable economy can be built. Paramount to the growth of Afghanistan's legal economy is the expansion in the sales, profits, and number of jobs provided by individual private enterprises. Businesses are the engines for the growth of the nation's economy. There will be a need for these activities to be communicated to the public, private, and civil sectors so that all understand the strategy and progress.

a. Intermediate Result 1: Legal and Regulatory Environment Improved

In order to help achieve this Intermediate Result, activities may be selected to help accomplish one or more of the following sub-results:

- Commercial laws modernized covering commercial code, secured transactions, commercial paper, collateral, bankruptcy, and laws on accounting and auditing of enterprises.
- Governance laws modernized covering Public Expenditure and Financial Management, Procurement, Civil Service, and corporate governance.
- Predictability and transparency of regulations enhanced through legal and regulatory reforms and the strengthening of regulatory bodies, including selected public utilities and the financial sector.
- Predictability and transparency of commercial dispute resolution enhanced by building the capacity of commercial courts and making available improved alternative commercial dispute resolutions, including establishing escrow accounts.
- Administrative barriers eliminated in Kabul and selected provinces and remaining administrative procedures simplified to reduce transaction costs and speed the establishment, operation, and reporting of private firms.
- Predictability and transparency of government taxes enhanced through legal and administrative reforms.

b. Intermediate Result 2: Monetary Policy and Central Bank (DAB) Operations Strengthened.

In order to help achieve this Intermediate Result, activities may be selected to help accomplish one or more of the following sub-results:

- Sound monetary policies provided to enhance real economic growth, while holding inflation to moderate or low rates and providing for an orderly and stable foreign exchange market.
- DAB staff trained and introduced to analytic systems so as to achieve the accurate and timely provision of economic and financial data and analysis to inform and guide the DAB in making effective monetary policy.

- Scope and depth of financial supervision extended to include not only quality bank supervision compliant with the Core Principles of the Basle Committee on Banking Supervision, but also effective supervision over non-bank financial institutions such as foreign exchange dealers, money service providers, securities service providers, microfinance depository institutions, non-depository credit institutions, and insurance companies.
- Reach of international financial reporting and auditing standards extended from DAB and the commercial banks to nonbank financial institutions, thereby serving as an effective model for the economy as a whole.
- Early development of a National Payments System based upon a modern bank-wide information technology and communications structure to include a Real-time Gross Settlement and Bulk Clearing System.

c. Intermediate Result 3: Fiscal Policies and Ministry of Finance Management Strengthened.

In order to help achieve this Intermediate Result, activities may be selected to help accomplish one or more of the following sub-results:

- A modern customs and tax administration capable of collecting government revenues according to international standards.
- A transparent budget formulation and execution function in the Ministry of Finance able to efficiently allocate government resources.
- A Fiscal Policy Analysis Unit within the Ministry of Finance to conduct macroeconomic and fiscal projections and analyses necessary for the Ministry to manage effectively the fiscal system.
- A Training Department responsible for designing and implementing the necessary classroom and on-the-job training programs for all functions within the Ministry of Finance.

d. Intermediate Result 4: Access to Credit Increased.

In order to help achieve this Intermediate Result, activities may be selected to help accomplish one or more of the following sub-results:

- Micro, small and medium enterprises have access to credit through risk-sharing credit mechanisms such as "on-lending" facilities to financial organizations, credit guarantees, and micro finance organizations.
- Small and medium enterprises have access to equity and venture capital facilities.

e. Intermediate Result 5: Financial Markets Deepened.

In order to help achieve this Intermediate Result, activities may be selected to help accomplish one or more of the following sub-results:

- Broader range of financial services provided, such as insurance, leasing, investment, and private pension companies.

- Institutional development and training to facilitate sound lending, including a real property appraisal profession, collateral registry and credit information bureau.
- A national banking and financial services capacity created that provides a broad range of high quality courses to supplement the education from local universities/colleges.

f. Intermediate Result 6: Land Markets Development through Titling Improvements.

In order to help achieve this Intermediate Result, activities may be selected to help accomplish one or more of the following sub-results:

- Provincial Makhzans (keepers of historical deeds and other civil documents) reorganized so that document search takes ten minutes instead of two months.
- The process of registering deeds is simplified and made transparent and deeds are made available in all accessible Afghan provinces.
 - Deed systems are automated.
 - Selected Makhzan's are rehabilitated or reconstructed.
 - A Land Administration office for the Primary Courts in Kabul sited and built to house a One Stop Shop for registration, mapping, cadastre and storage of historical records (Makhzan).
 - Standardized mapping cadastre in selected provinces.
 - Predictability and transparency of land tenure dispute resolution coordinated between formal government code, Sharia civil code, and tribal council traditional law.
- A land tenure Business Transaction Titling system is in place within the Ministry of Finance providing clear title for transfer of all industrial and commercial property.
- Regularization of tenure in informal settlements is in place in Kabul and other major urban areas.

g. Intermediate Result 7: Human Resources and Business' Capacity Increased.

In order to help achieve this Intermediate Result, activities may be selected to help accomplish one or more of the following sub-results:

- A sustainable national business association network created that promotes business-related advocacy initiatives, provides business/leadership training, and promotes investment and exports by both domestic and foreign investors.
- Business training and services provided to businesses and entrepreneurs throughout Afghanistan that includes accounting, auditing, development of business and marketing plans and other business skills leading to professional certification.

- Market-based clusters developed with selected industries to allow Afghanistan products and services to better compete in regional and international markets.
- Dialog promoted between the private and public sectors through new institutional structures that address inhibitors and enablers of competitiveness.
- Value added activities, such as processing and export sale of selected Afghan products enhanced to promote the development of an internationally competitive private sector.
- Business women prepare their own business and marketing plans, their handicraft and manufactured products are designed to meet high quality local and international standards, and they have access to micro, small and medium scale loans.
- The economics and business faculties at universities strengthened so that business and government capacity in accounting, management, marketing, economics, and business law is enhanced.

h. Intermediate Result 8: State-Owned Enterprises (SOE) Evaluated and Restructured, Sold or Liquidated.

In order to help achieve this Intermediate Result, activities may be selected to help accomplish one or more of the following sub-results:

- Displaced workers from State Owned Enterprises provided options for training, new jobs, or voluntarily redirected to other activities and compensated for their time in State service, utilizing proceeds from sale of public entities.
- Marketing effort to attract foreign and local investment in high priority industries such as cotton ginning, cement, silos, advertising and aviation and to fill in gaps in cluster value chains, based on satisfying customer needs in industries such as carpets and agricultural products.
- Excess government land sold and plans undertaken to manage some of the excess land for the general public, i.e. parks, recreation centers, etc.
- Non-functioning and economically ineffective SOE's liquidated.
- Privatization completed for Baghlan Sugar Enterprise and Cotton Ginning operations in Mazar and Kunduz. Prioritize SOE silos for privatization.

i. Intermediate Result 9: Trade and Competition Policy Improved

In order to help achieve this Intermediate Result, activities may be selected to help accomplish one or more of the following sub-results:

- Accession to the WTO.
- National Export Promotion Agency established capable of effectively increasing the volume of Afghanistan's exports regionally and internationally.

- Regional trade and transit agreements ratified to promote the free and efficient flow of goods and services.
- International Trade and Transit Units within the Ministry of Commerce capable of effectively negotiating and implementing agreements and participating in regional trade initiatives.
- Import/Export administrative procedures reformed and made consistent with WTO requirements to promote the international competitiveness of Afghanistan's industry and exports.
- Transportation and transit regulations harmonized with the region to allow for foreign transporters to transit international shipments through Afghanistan establishing Afghanistan as an East/West and North/South trade transit and communication corridor.
- Trade brokerage established to expedite the clearance of import/exports in a transparent manner consistent with international best practices.

j. Intermediate Result 10: International Standards and Best Practices Adopted.

In order to help achieve this Intermediate Result, activities may be selected to help accomplish one or more of the following sub-results:

- International Financial Reporting Standards (IFRS) established as the national standard; public and private units converted.
- National Institute of Standards and Metrology established capable of adopting and effectively implementing international safety and health standards in high priority areas of pharmaceuticals, construction materials, fuel, and food products.
- Uniform standards adopted for trade consistent with WTO requirements and international best practices.

2. Activities/Activity Selection. Activities under this Result may be focused in one or more of the following areas: currency conversion; fiscal reform; banking reform; trade policy; regulatory and legal reform; and privatization. Such activities may include, without limitation, (a) the reform of public-sector institutions and policies necessary to support a market economy, (b) fiscal reform to address customs and tax policy and administration and budget formulation and execution, (c) banking activities that address central and commercial bank laws, the operating and regulatory functions of the Central Bank, and developing a national payments system, or (d) legal and regulatory reform such as commercial law reform (for example, company law; bankruptcy; collateral; commercial paper; and alternative dispute resolution) and regulatory frameworks for public utilities. In addition there may be activities designed to promote women entrepreneurs and support a human resources restructuring activity at the Ministry of Commerce in support of the GOA's public administration reform program.

The program is intended to improve the policy framework for the private sector and build its human capital. Emphasis may be placed on training programs and capacity building within government organizations and in the private sector.

Activities designed to achieve an improvement of the land registry system and development of a process for establishing land tenure may take place. Other activities may include one or more of the following: (i) the restructuring of the 71 state-owned enterprises, (ii) refurbishment of industrial parks, (iii) provision of business advisory services in conjunction to the establishment of the \$20+ million Afghanistan Renewal Fund (Venture Capital), (iv) development of a training network and curricula for the use of computer and telecom equipment, (v) integration of the development and operational budgets of the national government along with coordination of donor agencies' grants and loans so that these may be included in Afghanistan's National Development Framework, (vi) the creation of a network of business associations to provide technical assistance and advocacy support, (vii) development of networks to support the creation of industry clusters, (viii) provision of technical assistance on the issues of privatization, land titling, accounting, and auditing, (ix) the strengthening of prioritized civil aviation physical assets and the Afghan Ministry of Civil Aviation and Transportation as essential components of the country's economic infrastructure, and (x) helping the central bank in building its capacity to guide and supervise the country's financial system.

D. Result #4: Stabilized Energy Services and that Are More Affordable and Accessible.

1. Development Hypothesis. Energy is a fundamental, cross-cutting driver of economic development and social stability. Limited access to energy is impeding economic development and social welfare improvements in Afghanistan. National government is constrained in its ability to conduct day-to-day operations, business and industry are commonly unable to function. New and refurbished hospitals, schools, clinics and businesses are stalled in their ability to become viable and fully functioning institutions. The lack of access to basic power also has political repercussions as citizens begin to demand improved services. Given the scope and complexity of problems in the sector, priorities and adequate funding must be committed for both immediate and longer-term activities. Donor coordination and the coordination among donors and the Ministries of Energy and Water and Mines and Industry as well as relevant state-owned enterprises will contribute to achieving progress in implementing the highly complex systems that deliver energy for economic growth.

2. Intermediate Results.

a. Intermediate Result 1: Build a sustainable operating system.

Under this Intermediate Result activities may be planned that intend to (i) provide support for the emergency power supply for Greater Kabul and Kandahar, Lashkar Gah and Qalat in Zabol, and Kandahar and Helmand provinces; (ii) stabilize the public power supply by rehabilitating/rebuilding the system to serve formerly connected areas; (iii) immediately initiate building of indigenous capacity through technical, management and vocational training applying market-based management practices, (iv) establish sector norms and standards and initiate sector restructuring and reform to promote improved efficiency, cost recovery and sustainability and (v) support the development and expansion of regional energy trade linkages with the Central Asian Republics and the South Asian countries.

Under the program the intent will be to try to achieve a sustainable system operations for provision of reliable, affordable power. The system may include a natural gas-fired thermal plant, hydro, micro-hydro and solar facilities that are sustainable based on cost-recovery. Additional activities may include the production of spare parts and micro-hydro and solar water heating/pumping systems to create small business opportunities in country.

Longer term priorities (2-5 years) are to (i) identify and support priority power sector development initiatives to supply power in market-based conditions; (ii) promote indigenous capacity and sustainability to manage the power sector; (iii) help posture Afghanistan strategically in both the Central Asia and South Asian regions to the benefit of long-term energy relationships; (iv) promote the development of Afghanistan's power sector so that it is integrated into the water and energy nexus to comprehensively support sound economic growth and quality of life.

b. Intermediate Result 2: A shift to indigenous sources of power.

The result will be a reduction and removal of emergency fuel procurement program and diversification of Afghanistan's The least cost supply may include a blend of economically priced electricity imports from Uzbekistan, Turkmenistan and Tajikistan as well as expanded domestic hydropower and gas-fired generation sources for grid-connected supply. Off-grid, the development of mini-hydro, wind and solar power may be promoted through the development of renewable energy data base. Activities may be designed to promote the use cost-efficient, safe, indigenous fuel sources and create domestic employment opportunities (gas, coal, oil).

c. Intermediate Result 3: Strengthened human and system resources.

Activities under this Intermediate Result are intended to help ensure that the country will eventually have the institutional capacity to maintain sustainable operations including market-based operations, technical expertise, legal and regulatory safeguards, transparent audit and accounting practices, billing and collections, environmental standards and viable labor-management relations.

Activities may include support for the Afghanistan Energy Information Center as the primary repository for all historic and updated energy sector data, mapping, analysis and library of assessments, reports including government projects and donor participation and improved regional linkages between institutions to enhance power import opportunities, cross-border trade, contracting and sound regional energy resource management practices.

d. Intermediate Result 4: Improved policy, legal and regulatory frameworks.

In collaboration with other donors, activities under this Intermediate Result may include sector restructuring, establishment of technical, safety and environment codes to assure safe and sustainable operation of systems. These may include grid code, electricity code, health and safety and environmental regulations. In addition, there may be activities to improve sector efficiency, institutional and regulatory support to enforce sector standards. Support of legal and regulatory standards including institutional

operations and oversight to assure transparent and predictable operations, sound use of energy resources and strategic planning for future resource development and use throughout the country may also be part of this intermediate result.

e. Intermediate Result 5: Improved private-sector support for the energy sector.

Activities may include support for the development of Afghanistan-based production, where possible, of spare parts, micro-hydro, solar water heating, solar pumping and solar drying systems to create small business opportunities throughout the country. In addition, there may be activities designed to improve technical capacity to provide installation, operations and maintenance of transmission and distribution. The intent will also be to improve technical capacity to support gas field services, exploration and production capability and pipeline maintenance and repair through private sector contracting.

E. Result #5: Expanded and Improved Access to Transportation

1. Development hypotheses. Development of the Afghan transport infrastructure is critical to revitalizing and expanding Afghanistan's economy. Transport infrastructure is a conduit for ideas, as well as people and goods. The rebuilding and improvement of Afghanistan's transport sector and the capacity of the responsible Government of Afghanistan ministries will lower transportation costs, promote more efficient import and export of goods, increase access to education and health care, improve international travel to and from the country, decrease ethnic divisions between regions, re-activate the agriculture sector, reduce unemployment, and improve the security and stability of the country. It will serve to bind the various regions of the country together, improve the internal flow of goods and services, and create economic opportunities. Externally, it will enable Afghanistan to serve as a land bridge between resource-rich Central Asia and the producers of South Asia.

Expanded and improved access to transportation requires significant progress in five areas:

- Restructuring of involved ministries into planning, policy making and management organs of the central government;
- Facilitating development of private sector capability to execute the construction, maintenance and operation of the transportation infrastructure through contracts awarded and administered by the government;
- Continued transport sector infrastructure development;
- Coordination and facilitation across the donor and development community; and
- Cost-recovery mechanisms to support economic sustainability of the transport sector.

Transport sector infrastructure projects require large capital investments and continued donor commitment and execution.

2. Intermediate Results:

a. Intermediate Result 1: Construct and develop the transport infrastructure; physical rehabilitation of roads, civil aviation and rail facilities.

Intended activities may include the execution of major transport infrastructure projects as a key component of its economic development. Improved transportation infrastructure will help to build an environment conducive to economic development. Internally, improved transportation will bind Afghanistan together through the movement of people, commodities, and ideas. Externally, it will allow Afghanistan to serve as an economic land bridge between resource-wealthy Central Asia and producers in Iran, Pakistan, and India.

b. Intermediate Result 2: Support coordination activities and unified standards.

One of the proposed activities under this Intermediate Result may be to help develop a framework for policy and planning for longer-term projects. As part of such an activity, the Parties would coordinate and synchronize with the donor community through activities under the Transport Sector Consultative Group. The program will support standards and feasibility / project packet development to ensure that Afghanistan receives additional infrastructure, executed to one standard. It will also help establish a comprehensive National Regulation Code and Standards for transport infrastructure construction. This will further bind the country together and anchor it within regional trade regimes.

Additional sub-results under this Intermediate Result include:

- Increased donor collaboration and synchronization to eliminate competition and duplication of efforts and ensure coverage of the most pressing Afghan needs.
- Development of project turnover procedures;
- Master planning to determine requirements and standards;
- Development of feasibility studies and project packets for future planning and donor or Government of Afghanistan execution.

c. Intermediate Result 3: Build capacity in the sector to plan, execute, and operate and maintain the transport infrastructure.

Activities under this Intermediate Result may include support for the Ministry of Public Works to privatize the bulk of its highway maintenance units and the entire roadway construction requirement. It is intended that an activity may help establish a Project Implementation Unit similar to the World Bank plan for installation of a managing firm in the ministry for at least three years. Such a unit would function in the framework of the ministry, leading the effort to privatize, and leaving behind a strong team of project managers, contract administrators and construction inspectors.

To the extent possible, activities will be designed to support the development of cost-recovery mechanisms that will ensure that Afghanistan can sustain the transport sector infrastructure and support the future planning, execution, and maintenance of Afghan-executed projects.

Additional sub-results under this Intermediate Result include:

- Provision of training in managerial and technical skills; and
- Development of cost-recovery measures to ensure economic sustainability.

F. Result #6: Expanded Access to Water Supplies and Sanitation

1. Development hypotheses. Management of water resources in an arid country such as Afghanistan is critical to the success of the development goals in the country. A national water resources strategy would help identify and prioritize the available water resources while also enabling management of competing uses for water to avoid waste and contamination of water resources. Participation in regional water allocation issues is important since most of Afghanistan's surface water resources are a part of international treaty rivers. Activities under this Result may include support for the development of a national water resources strategy by an independent water resource team of experts. Under this Result, the Parties may also focus on issues such as watershed management plans, international water issues, water use policies and nationwide stream monitoring.

In addition, improvement of the water supply system is necessary to break the cycle of waterborne diseases and reduce the time-consuming burden of water transport. The water supply systems in Afghanistan are dispersed and varied around the country, and even within the urban areas residents use a mixture of approaches to obtain water. The usage rate per capita in Afghanistan is relatively low because water is scarce, far away from dwellings, and of poor quality. There is a range of solutions to this problem, each of which requires different inputs from the user and the supplier.

- The short-term solution, which is being used now, is to carry water to specified locations on a regular basis using tanker trucks.
- The medium-term solution is to establish water points, which are filled regularly and that people can access using hand pumps.
- The long-term solution is to pipe water directly into homes.

In a water supply and sanitation program one priority may be to improve hygiene behavior and sanitation; next, to increase the quantity of available water; and last, to improve infrastructure for water quality. This suggests that a priority of the program may be on hygiene behavior and sanitation. For the next five-year planning period, the focus may include on-site disposal of excreta. Progress may also be made on recharge of liquid waste to the subsurface. Also, part of the program may include techniques for the efficient and economical collection and disposal of nightsoil. Hygiene education in the schools and habits encouraged that promote proper hygiene may also be considered.

2. Intermediate Results. This result is supported by four Intermediate Results:

a. Intermediate Result 1: Increased access to safe drinking water.

In terms of national water resources, the Intermediate Result may include activities intended to rationalize and prioritize the development of water resources.

In terms of water supply, progress will be measured in terms of (1) the percentage of the total population with safe drinking water and (2) available liters per capita per day (lpcd).

b. Intermediate Result 2: Expand sanitation services.

This Intermediate Result may be achieved in part through the construction and maintenance of improved latrine systems. Progress will be measured in terms of the percent of the population with access to sanitary systems.

c. Intermediate Result 3: Development of the technical and institutional foundation for sustaining the water and sanitation programs.

This Intermediate Result may include activities that build the capacity of relevant ministries and private sector companies to manage programs and provide services.

V. Indicators, Monitoring and Evaluation

A list of indicators, including precise descriptions that include, among other details, quantity, periodicity and the appropriate source for obtaining data may be further detailed in Implementation Letters. Targets will be based on current trends at the time and the estimated impact of USAID and other donor interventions. Targets will be re-examined and adjusted, if necessary, as additional data become available.

USAID may take corrective action based on the results of the monitoring and evaluation of the data or at the request of the Grantee. Corrective action may include, but is not limited to, discontinuing, reducing or otherwise modifying one or more ongoing activities, or adding new activities. Funds allotted to activities may be discontinued, reduced or shifted to existing activities or new activities in furtherance of the Objective.

VI. Roles and Responsibilities of the Parties

The Objective will be achieved through a partnership among USAID, the Grantee (represented primarily by the Ministry of Finance, and other Grantee ministries such as the Ministry of Agriculture, Animal Husbandry and Food, Ministry of Counter-narcotics, the Ministry of Rural Rehabilitation and Development, the Ministry of Urban Development and Housing, the Ministry of Commerce, the Ministry of Public Works, the Ministry of Energy and Water, and the Ministry of Transport, private voluntary organizations (PVOs), and non-governmental organizations (NGOs) (both U.S. and local), public international organizations, contractors, cooperating agencies, local communities, the Central Bank, and other donors. Other donors include the European Commission, World Bank, JICA and bi-lateral donors, such as

India, Great Britain, South Korea and others. Coordination occurs through Consultative Groups on transport, energy, private sector, counter narcotics, and agriculture, in addition to a number of coordinated Task Forces and working groups. The extended team will bring together the concerns opportunities and issues of other partners to ensure that Agreement activities are the most appropriate and effective to reach the desired Results. Roles and relationships among these groups may be more fully described in Implementation Letters, however, some general responsibilities are described below.

The most essential partner in the agriculture, alternative livelihoods, economic growth, transport, energy and water sector, is the target population itself. The Grantee will seek collaboration with local communities to ensure local ownership, direction and sustained support of agriculture, alternative livelihoods, economic growth, transport, energy and water services.

It is up to the Grantee to articulate clear policies and guidelines in all the mentioned sectors in accordance with its national priorities and ensure compliance with such policies and guidelines.

The private sector, PVOs and NGOs play an important role in the identification and implementation of agriculture, alternative livelihoods, economic growth, transport energy and water programs and provide technical expertise not always available within USAID or the Grantee. Grant proceeds may be provided by USAID directly to such implementing partners to carry out activities under this Agreement. USAID may select implementing organizations in accordance with its procurement and other relevant policies and procedures. The Grantee agrees to raise any issues related to implementing organizations on USAID-funded activities, including without limitation any issues related to inadequate or non-performance, directly with USAID rather than the implementing organization(s) in question.

Both USAID and the Grantee are responsible for coordinating strategy, resource programming and policy with other agencies operating in Afghanistan's agriculture, alternative livelihoods, economic growth, transport energy and water sector. Achievement of the expected results described herein is based on the assumption that certain results will be achieved by other donors, which are beyond the manageable interest of USAID. The Grantee is responsible for articulating national priorities to the entire donor community in the agriculture, alternative livelihoods, economic growth, transport, energy and water sectors.

In order to ensure full coordination and consultation, the Parties agree to meet at least twice each calendar year, beginning with the first full calendar year following the execution of the Agreement, to review all aspects of this Agreement, including both strategic and operational issues. In such meeting the Parties will discuss whether activities being carried out under this Agreement are leading to the results outlined in this Annex 1 or are achieving the indicators set forth in Implementation Letters. The Parties may discuss their views as to whether there may be a need to alter, increase or discontinue activities, plan new activities or alter the resource allocations to particular activities in order to meet the Objective and Results and achieve continued alignment with the Grantee's national development priorities. It is expected that the Parties will also discuss current and future resource requirements related to such activities and the overall estimated expenditures for activities over the remaining term of the Agreement.

In addition, as part of its internal planning process, USAID intends to develop concept papers with general cost estimates for new program areas it is considering in

furtherance of the mutual objectives set forth in this Agreement. USAID will consult and engage with the Grantee at the concept paper stage of development of new programs within the scope of this Agreement. Under internal procedures that are being developed, USAID will share each concept paper for a new program area with the Grantee. The Grantee will review the concept paper and participate in setting the direction and parameters for the subsequent stage of review and approval of the new program by USAID. It is possible that a concept may not advance to the subsequent stage of planning within USAID to the extent the Grantee has serious concerns that cannot be addressed after discussions between the Parties. Grantee review of concept papers will be carried out by the Ministry of Finance or the Ministry of Finance's designee. A similar consultative process will be followed during the project design stage.

USAID also intends to invite Grantee participation, as appropriate, in procurement evaluation panels for major activities. The Grantee will participate in such panels through the designation by the Ministry of Finance of an individual either from the Ministry of Finance or another appropriate Ministry to sit on such panel. The Grantee's representative shall comply with USAID's regulations governing participation on such panels as indicated by USAID.

VII. Other Implementation Issues

The Parties agree that with respect to the audit provisions set forth in Section B.5 of Annex 2 to this Agreement (Standard Provisions), to the extent USAID funds non-Grantee implementing partners directly for activities under this Agreement, USAID will include necessary audit provisions in its implementing agreements with such partners in lieu of the Grantee submitting the required audit plan described in that Section.

ILLUSTRATIVE BUDGET FY05 - FY10
SO 5 A THRIVING ECONOMY LED BY THE PRIVATE SECTOR

in thousands USD

	29,800	57,400	118,000	205,000	210,000	212,000
Rehabilitate the rural economy						
Accelerate market-led growth in agriculture	25,800	17,400	43,000	55,000	60,000	62,000
Accelerate rural development to generate alternative livelihoods	4,000	70,000	75,000	150,000	150,000	150,000
Increase incomes through Economic Growth	12,430	35,059	58,000	84,000	91,000	113,000
Expand Improved Access to Economic Infrastructure	278,892	117,500	243,000	215,000	200,000	170,000
Stabilize Energy Services and Make them Affordable and More Accessible	134,400	49,500	116,000	100,000	90,000	80,000
Expand and Improve Access to Transportation	114,292	42,000	79,000	75,000	70,000	40,000
Expand and Improve Access to Water Supplies and Sanitation	30,200	26,000	48,000	40,000	40,000	50,000
US AID Program Support	54,007	137,504	73,000	0	0	0
US AID Program Support	6,420	4,500	8,000	9,000	8,000	7,000

Note 1: All amounts are estimates and are subject to the availability of funds and the other terms and conditions of this Agreement and applicable law.

Note 2: References to "FY" refer to the U.S. government fiscal year with respect to the USAID contribution and the fiscal year of the GOA with respect to GOA contributions, beginning with the second half of Afghan year 1384 corresponding to FY05.

Annex 2

Standard Provisions

Table of Contents

Article A: Definitions and Implementation Letters.

Section A.1. Definitions.

Section A.2. Implementation Letters.

Article B: General Covenants.

Section B.1. Consultation.

Section B.2. Execution of Agreement.

Section B.3. Utilization of Goods and Services.

Section B.4. Taxation.

Section B.5. Reports and Information, Agreement Books and Records, Audits, and Inspections

Section B.6. Completeness of Information.

Section B.7. Other Payments.

Section B.8. Information and Marking.

Article C: Procurement Provisions.

Section C.1. Source and Origin.

Section C.2. Eligibility Date.

Section C.3. Plans, Specifications and Contracts.

Section C.4. Reasonable Price.

Section C.5. Notification to Potential Suppliers.

Section C.6. Shipping.

Section C.7. Insurance.

Section C.8. U.S. Government-Owned Excess Property.

Article D: Disbursements.

Section D.1. Disbursement for Foreign Exchange Costs.

Section D.2. Disbursement for Local Currency Costs.

Section D.3. Other Forms of Disbursement.

Section D.4. Rate of Exchange.

Article E: Termination; Remedies.

Section E.1. Suspension and Termination.

Section E.2. Refunds.

Section E.3. Non-waiver of Remedies.

Section E.4. Assignment.

Article F: Miscellaneous.

Section F.1. Investment Promotion.

Section F.2. Voluntary Family Planning.

Section F.3. Prohibition on Assistance to Drug Traffickers.

Section F.4. Workers' Rights.

Standard Provisions

Article A: Definitions and Implementation Letters.

Section A.1. Definitions. As used in this Annex, the "Agreement" refers to the Strategic Objective Grant Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning or reference as in the Agreement.

Section A.2. Implementation Letters. To assist the Grantee in the implementation of the Agreement, USAID, from time to time, will issue Implementation Letters that will furnish additional information about matters stated in this Agreement. The Parties may also issue jointly agreed-upon Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Implementation Letters can also be issued to record revisions or exceptions which are permitted by the Agreement.

Article B: General Covenants.

Section B.1. Consultation. The Parties will cooperate to assure that the Objective and Results of this Agreement will be accomplished. To this end, the Parties, at the request of either, will exchange views on progress towards the Objective and Results, the performance of obligations under this Agreement, the performance of any consultants, contractors, or suppliers engaged under the Agreement, and other matters relating to the Agreement.

Section B.2. Execution of Agreement. The Grantee will:

(a) Carry out the Agreement or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules, or other arrangements, and with any modifications therein, approved by USAID pursuant to this Agreement; and

(b) Provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of activities financed under the Agreement, and, as applicable for continuing activities, cause those activities to be operated and maintained in such manner as to assure the continuing and successful achievement of the Objective and Results of the Agreement.

Section B.3. Utilization of Goods and Services.

(a) Any goods and services financed under this Agreement, unless otherwise agreed in writing by USAID, will be devoted to the Agreement until the completion or termination of the Agreement, and thereafter (as well as during any period of suspension of the Agreement) will be used to further the Objective of the Agreement and as USAID may direct in Implementation Letters.

(b) Goods or services financed under this Agreement, except as USAID may otherwise agree in writing, will not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in USAID Geographic Code 935 as in effect at the time of such use.

Section B.4. Taxation.

(a) General Exemption. The Agreement is a program agreement under the terms of the Point Four General Agreement for Technical Cooperation, dated as February 7, 1951, between the Grantee and the United States Government, and the assistance thereunder is free from any taxes imposed under laws in effect in the territory of the Grantee.

(b) Except as provided otherwise in this provision, the General Exemption in subsection (a) applies to, but is not limited to (1) any activity, contract, grant or other implementing agreement financed by USAID under this Agreement; (2) any transaction or supplies, equipment, materials, property or other goods (hereinafter collectively "goods") under (1) above; (3) any contractor, grantee, or other organization carrying out activities financed by USAID under this Agreement; (4) any employee of such organizations; and (5) any individual contractor or grantee carrying out activities financed by USAID under this Agreement.

(c) Except as provided otherwise in this provision, the General Exemption in subsection (a) applies to, but is not limited to, the following taxes:

(1) Exemption 1. Customs duties, tariffs, import taxes, or other levies on the importation, use and re-exportation of goods or the personal belongings and effects (including personally-owned automobiles) for the personal use of non-national individuals or their family members.

Exemption 1 includes, but is not limited to, all charges based on the value of such imported goods, but does not include service charges directly related to services performed to transfer goods or cargo.

(2) Exemption 2. Taxes on the income, profits or property of all (i) non-national organizations of any type, (ii) non-national employees of national and non-national organizations, or (iii) non-national individual contractors and grantees. Exemption 2 includes income and social security taxes of all types and all taxes on the property, personal or real, owned by such non-national organizations or persons. The term "national" refers to organizations established under the laws of the Grantee and citizens of the Grantee, other than permanent resident aliens in the United States.

(3) Exemption 3. Taxes levied on the last transaction for the purchase of goods or services financed by USAID under this Agreement, including sales taxes, value-added taxes (VAT), or taxes on purchases or rentals of real or personal property. The term "last transaction" refers to the last transaction by which the goods or services were purchased for use in the activities financed by USAID under this Agreement.

(d) If a tax has been levied and paid contrary to the provisions of an exemption, USAID may, in its discretion, (1) require the Grantee to refund to USAID or to others as USAID may direct the amount of such tax with funds other than those provided under the Agreement, or (2) offset the amount of such tax from amounts to be disbursed under this or any other agreement between the Parties.

(e) In the event of a disagreement about the application of an exemption, the Parties agree to promptly meet and resolve such matters, guided by the principle that the assistance furnished by USAID is free from direct taxation, so that all of the assistance furnished by USAID will contribute directly to the economic development of the country of the Grantee.

Section B.5. Reports and Information, Agreement Books and Records, Audits, and Inspections.

(a) **Reports and Information.** The Grantee shall furnish USAID accounting records and such other information and reports relating to the Agreement as USAID may reasonably request.

(b) **Grantee Agreement Books and Records.** The Grantee shall maintain accounting books, records, documents and other evidence relating to the Agreement, adequate to show, without limitation, all costs incurred by the Grantee under the Agreement, the receipt and use of goods and services acquired under the Agreement by the Grantee, agreed-upon cost sharing requirements, the nature and extent of solicitations of prospective suppliers of goods and services acquired by the Grantee, the basis of award of Grantee contracts and orders, and the overall progress of the Agreement toward completion ("Agreement books and records"). The Grantee shall maintain Agreement books and records in accordance with generally accepted accounting principles prevailing in the United States, or at the Grantee's option, with approval by USAID, other accounting principles, such as those (1) prescribed by the International Accounting Standards Committee (an affiliate of the International Federation of Accountants) or (2) prevailing in the country of the Grantee. Agreement books and records shall be maintained for at least three years after the date of last disbursement by USAID or for such longer period, if any, required to resolve any litigation, claims or audit findings.

(c) **Grantee Audit.** If \$300,000 or more of USAID funds are expended directly by the Grantee in its fiscal year under the Agreement, the Grantee shall have financial audits made of the expenditures in accordance with the following terms, except as the Parties may otherwise agree in writing:

(1) With USAID approval, the Grantee shall use its Supreme Audit Institution or select an independent auditor in accordance with the "Guidelines for Financial Audits Contracted by Foreign Recipients" issued by the USAID Inspector General ("Guidelines"), and the audits shall be performed in accordance with the Guidelines; and

(2) The audit shall determine whether the receipt and expenditure of the funds provided under the Agreement are presented in accordance with generally accepted accounting principles agreed to in section (b) above and whether the Grantee has complied with the terms of the Agreement. Each audit shall be completed no later than nine months after the close of the Grantee's year under audit.

(d) Sub-recipient Audits. The Grantee, except as the Parties may otherwise agree in writing, shall submit to USAID, in form and substance satisfactory to USAID, a plan for the audit of the expenditures of "covered" sub-recipients, as defined below, that receive funds under this Agreement pursuant to a direct contract or agreement with the Grantee.

(1) A "covered" sub-recipient is one who expends \$300,000 or more in its fiscal year in "USAID awards" (i.e., as recipients of USAID cost reimbursable contracts, grants or cooperative agreements and as sub-recipients under USAID strategic objective and other grant agreements with foreign governments).

(2) The plan shall describe the methodology to be used by the Grantee to satisfy its audit responsibilities for covered sub-recipients. The Grantee may satisfy such audit responsibilities by relying on independent audits of the sub-recipients; expanding the scope of the independent financial audit of the Grantee to encompass testing of sub-recipients' accounts; or a combination of these procedures.

(3) The plan shall identify the funds made available to covered sub-recipients that will be covered by audits conducted in accordance with other audit provisions that would satisfy the Grantee's audit responsibilities. (A nonprofit organization organized in the United States is required to arrange for its own audits. A for-profit contractor organized in the United States that has a direct contract with USAID is audited by the cognizant U.S. Government Agency. A private voluntary organization organized outside the United States with a direct grant from USAID is required to arrange for its own audits. A host-country contractor should be audited by the Grantee's auditing agency.)

(4) The Grantee shall ensure that covered sub-recipients under direct contracts or agreements with the Grantee take appropriate and timely corrective actions; consider whether sub-recipients' audits necessitate adjustment of its own records; and require each such sub-recipient to permit independent auditors to have access to records and financial statements as necessary.

(e) Audit Reports. The Grantee shall furnish or cause to be furnished to USAID an audit report for each audit arranged for by the Grantee in accordance with this Section within 30 days after completion of the audit and no later than nine months after the end of the period under audit.

(f) Other Covered Sub-recipients. For "covered" sub-recipients who receive funds under the Agreement pursuant to direct contracts or agreements with USAID, USAID will include appropriate audit requirements in such contracts or

agreements and will, on behalf of the Grantee, conduct the follow-up activities with regard to the audit reports furnished pursuant to such requirements.

(g) **Cost of Audits.** Subject to USAID approval in writing, costs of audits performed in accordance with the terms of this Section may be charged to the Agreement.

(h) **Audit by USAID.** USAID retains the right to perform the audits required under this Agreement on behalf of the Grantee by utilizing funds under the Agreement or other resources available to USAID for this purpose, conduct a financial review, or otherwise ensure accountability of organizations expending USAID funds regardless of the audit requirement.

(i) **Opportunity to Audit or Inspect.** The Grantee shall afford authorized representatives of USAID the opportunity at all reasonable times to audit or inspect activities financed under the Agreement, the utilization of goods and services financed by USAID, and books, records and other documents relating to the Agreement.

(j) **Sub-recipient Books and Records.** The Grantee will incorporate paragraphs (a), (b), (d), (e), (g), (h) and (i) of this provision into all sub-agreements with non-U.S. organizations which meet the \$300,000 threshold of paragraph (c) of this provision. Sub-agreements with non-U.S. organizations, which do not meet the \$300,000 threshold, shall, at a minimum, incorporate paragraphs (h) and (i) of this provision. Sub-agreements with U.S. organizations shall state that the U.S. organization is subject to the audit requirements contained in OMB Circular A-133.

Section B.6. Completeness of Information. The Grantee confirms:

(a) that the facts and circumstances of which it has informed USAID, or caused USAID to be informed, in the course of reaching agreement with USAID on the Agreement, are accurate and complete, and include all facts and circumstances that might materially affect the Agreement and the discharge of responsibilities under this Agreement; and

(b) that it will inform USAID in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Agreement or the discharge of responsibilities under this Agreement.

Section B.7. Other Payments. Grantee affirms that no payments have been or will be received by any official of the Grantee in connection with the procurement of goods or services financed under the Agreement, except fees, taxes, or similar payments legally established in the country of the Grantee.

Section B.8. Information and Marking. The Grantee will give appropriate publicity to the Agreement as a program to which the United States has contributed, identify Agreement activity sites, and mark goods financed by USAID, as described in Implementation Letters.

Article C: Procurement Provisions.

Section C.1. Source and Origin.

(a) **Foreign Exchange Costs.** Disbursements for Foreign Exchange Costs will be used exclusively to finance the costs of goods and services required for the Agreement having, with respect to goods, their source and origin and, with respect to the suppliers of goods and services, their nationality, in countries included in Geographic Code 935 as in effect at the time orders are placed or contracts entered into for such goods or services, except as USAID may otherwise agree in writing and as follows:

(1) Ocean transportation costs shall be financed under the Agreement only on vessels under flag registry of countries included in Code 935. Also see Section C.6 on use of U.S. flag vessels.

(2) The country of the Grantee is an eligible source for Foreign Exchange Cost for marine insurance, if otherwise eligible under Section C.7(a).

(3) Any motor vehicles financed under the Agreement will be of United States manufacture, except as USAID may otherwise agree in writing.

(b) **Local Currency Costs.** Disbursements for Local Currency Costs will be used exclusively to finance the costs of goods and services required for the Agreement which meet the requirements of USAID's local procurement policy which will be provided in an Implementation Letter.

(c) The source and origin of ocean and air shipping will be deemed to be the ocean vessel's or aircraft's country of registry at the time of shipment.

(d) Provisions concerning restricted and ineligible goods and services may be provided in an Implementation Letter.

(e) Transportation by air of property or persons financed under this agreement will be on carriers holding United States certification, to the extent service by such carriers is available under the United States' Fly America Act. This requirement may be further described by USAID in Implementation Letters.

Section C.2. Eligibility Date. No goods or services may be financed under the Agreement which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement, except as the Parties may otherwise agree in writing.

Section C.3. Plans, Specifications and Contracts. In order for there to be mutual agreement on the following matters, and except as the Parties may otherwise agree in writing:

(a) The Grantee will furnish to USAID upon preparation:

(1) any plans, specifications, procurement or construction schedules, contracts, or other documentation between the Grantee and third parties, relating to goods or services to be financed under the Agreement, including documentation relating to the prequalification and selection of contractors and to the solicitation of bids and proposals. Material modifications in such documentation will likewise be furnished USAID on preparation; and

(2) such documentation will also be furnished to USAID, upon preparation, relating to any goods or services, which, though not financed under the Agreement, are deemed by USAID to be of major importance to the Agreement. Aspects of the Agreement involving matters under this subsection (a)(2) will be identified in Implementation Letters.

(b) Documents related to the prequalification of contractors, and to the solicitation of bids or proposals for goods and services financed under the Agreement will be approved by USAID in writing prior to their issuance, and their terms will include United States standards and measurements;

(c) Contracts and contractors financed under the Agreement for engineering and other professional services, for construction services, and for such other services, equipment, or materials as may be specified in Implementation Letters, will be approved by USAID in writing prior to execution of the contract. Material modifications in such contracts will also be approved in writing by USAID prior to execution; and

(d) Consulting firms used by the Grantee for the Agreement but not financed under the Agreement, the scope of their services and such of their personnel assigned to activities financed under the Agreement as USAID may specify, and construction contractors used by the Grantee for the Agreement but not financed under the Agreement, shall be acceptable to USAID.

Section C.4. Reasonable Price. No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Agreement. Such items will be procured on a fair and, to the maximum extent practicable, competitive basis.

Section C.5. Notification to Potential Suppliers. To permit all United States firms to have the opportunity to participate in furnishing goods and services to be financed under the Agreement, the Grantee will furnish USAID such information with regard thereto, and at such times, as USAID may request in Implementation Letters.

Section C.6. Transportation

(a) In addition to the requirements in Section C.1(a), costs of ocean or air transportation and related delivery services may not be financed under the Grant, if the costs are for transportation under an ocean vessel or air charter which has not received prior USAID approval.

(b) Unless USAID determines that privately owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels, or otherwise agrees in writing:

(1) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by USAID which may be transported on ocean vessels will be transported on privately owned United States-flag commercial vessels; and

(2) at least fifty percent (50%) of the gross freight revenue generated by all shipments financed by USAID and transported to the territory of the Grantee on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag commercial vessels. Compliance with the requirements of (1) and (2) of this subsection must be achieved with respect to both any cargo transported from U.S. ports and any cargo transported from non-U.S. ports, computed separately.

Section C.7. Insurance.

(a) Marine insurance on goods financed by USAID which are to be transported to the territory of the Grantee may be financed as a Foreign Exchange Cost under this Agreement provided:

(1) such insurance is placed at the most advantageous competitive rate;

(2) such insurance is placed in a country which is authorized under Section C.1(a); and

(3) claims thereunder are payable in U.S. dollars or any freely convertible currency unless USAID agrees otherwise in writing.

If the Grantee (or government of the Grantee), by statute, decree, rule, regulation, or practice discriminates with respect to USAID-financed procurement against any marine insurance company authorized to do business in any State of the United States, then all goods shipped to the territory of the Grantee financed by USAID hereunder shall be insured against marine risks and such insurance shall be placed in the United States with a company or companies authorized to do marine insurance business in the United States.

(b) Except as USAID may otherwise agree in writing, the Grantee will insure, or cause to be insured, goods financed under the Agreement imported for the Agreement against risks incident to their transit to the point of their use under the Agreement; such insurance will be issued on terms and conditions consistent with sound commercial practice and will insure the full value of the goods. Any indemnification received by the Grantee under such insurance will be used to replace or repair any material damage or any loss of the goods insured or will be used to reimburse the Grantee for the replacement or repair of such goods. Any such replacement will be of source and origin of countries listed in USAID Geographic Code 935 as in effect at the time of replacement and, except as the

Parties may agree in writing, will be otherwise subject to the provisions of the Agreement.

Section C.8. U.S. Government-Owned Excess Property. The Grantee agrees that wherever practicable United States Government-owned excess personal property, in lieu of new items financed under the Grant, should be utilized. Funds under the Agreement may be used to finance the costs of obtaining such property.

Article D: Disbursements.

Section D.1. Disbursement for Foreign Exchange Costs.

(a) After satisfaction of conditions precedent, if any, the Grantee may obtain disbursements of funds under the Agreement for the Foreign Exchange Costs of goods or services required for the Agreement in accordance with its terms, by such of the following methods as may be mutually agreed upon:

(1) by submitting to USAID, with necessary supporting documentation as prescribed in Implementation Letters, (A) requests for reimbursement for such goods or services, or, (B) requests for USAID to procure commodities or services in Grantee's behalf for the Agreement; or,

(2) by requesting USAID to issue Letters of Commitment for specified amounts directly to one or more contractors or suppliers, committing USAID to pay such contractors or suppliers for such goods or services.

(b) Banking charges incurred by the Grantee in connection with Letters of Commitment will be financed under the Agreement unless the Grantee instructs USAID to the contrary. Such other charges as the Parties may agree to may also be financed under the Agreement.

Section D.2. Disbursement for Local Currency Costs.

(a) After satisfaction of conditions precedent, if any, the Grantee may obtain disbursements of funds under the Agreement for Local Currency Costs required for the Agreement in accordance with terms of this Agreement, by submitting to USAID, with necessary supporting documentation as prescribed in Implementation Letters, requests to finance such costs.

(b) The local currency needed for such disbursements may be purchased by USAID with U.S. Dollars. The U.S. Dollar equivalent of the local currency made available hereunder will be the amount of U.S. Dollars required by USAID to obtain the local currency.

Section D.3. Other Forms of Disbursement. Disbursements may also be made through such other means as the Parties may agree to in writing.

Section D.4. Rate of Exchange. If funds provided under the Agreement are introduced into the Cooperating Country by USAID or any public or private agency for purposes of carrying out obligations of USAID hereunder, the Grantee will make such arrangements as may be necessary so that such funds may be converted into local

currency at the highest rate of exchange which, at the time the conversion is made, is not unlawful in the country of the Grantee to any person for any purpose.

Article E: Termination; Remedies.

Section E.1. Suspension and Termination.

(a) Either Party may terminate this Agreement in its entirety by giving the other Party 30 days written notice. USAID also may terminate this Agreement in part by giving the Grantee 30 days written notice, and suspend this Agreement in whole or in part upon giving the Grantee written notice. In addition, USAID may terminate this Agreement in whole or in part, upon giving the Grantee written notice, if (i) the Grantee fails to comply with any provision of this Agreement, (ii) an event occurs that USAID determines makes it improbable that the Objective or Results of the Agreement or the assistance program will be attained or that the Grantee will be able to perform its obligations under this Agreement, or (iii) any disbursement or use of funds in the manner herein contemplated would be in violation of the legislation governing USAID, whether now or hereafter in effect.

(b) Except for payment which the Parties are committed to make pursuant to non-cancellable commitments entered into with third parties prior to such suspension or termination, suspension or termination of this entire Agreement or part thereof will suspend (for the period of the suspension) or terminate, as applicable, any obligation of the Parties to provide financial or other resources to the Agreement, or to the suspended or terminated portion of the Agreement, as applicable. Any portion of this Agreement which is not suspended or terminated shall remain in full force and effect.

(c) In addition, upon such full or partial suspension or termination, USAID may, at USAID's expense, direct that title to goods financed under the Agreement, or under the applicable portion of the Agreement, be transferred to USAID if the goods are in a deliverable state.

Section E.2. Refunds.

(a) In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, or which was for goods or services not used in accordance with this Agreement, USAID, notwithstanding the availability or exercise of any other remedies under this Agreement, may require the Grantee to refund the amount of such disbursement in U.S. Dollars to USAID within sixty (60) days after receipt of a request therefor.

(b) If the failure of Grantee to comply with any of its obligations under this Agreement has the result that goods or services financed or supported under the Agreement are not used effectively in accordance with this Agreement, USAID may require the Grantee to refund all or any part of the amount of the disbursements under this Agreement for or in connection with such goods or services in U.S. Dollars to USAID within sixty (60) days after receipt of a request therefor.

(c) The right under subsections (a) or (b) to require a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement under this Agreement.

(d) (1) Any refunds under subsections (a) or (b), or (2) any refund to USAID from a contractor, supplier, bank or other third party with respect to goods or services financed under the Agreement, which refund relates to an unreasonable price for or erroneous invoicing of goods or services, or to goods that did not conform to specifications, or to services that were inadequate, will (A) be made available first for the Agreement, to the extent justified, and (B) the remainder, if any, will be applied to reduce the amount of the Grant.

(e) Any interest or other earnings on funds disbursed by USAID to the Grantee under this Agreement prior to the authorized use of such funds for the Agreement will be returned to USAID in U.S. Dollars by the Grantee, unless USAID otherwise agrees in writing.

Section E.3. Non-waiver of Remedies. No delay in exercising any right or remedy accruing to a Party in connection with its financing under this Agreement will be construed as a waiver of such right or remedy.

Section E.4. Assignment. The Grantee agrees, upon request, to execute an assignment to USAID of any cause of action which may accrue to the Grantee in connection with or arising out of the contractual performance or breach of performance by a Party to a direct U.S. Dollar contract which USAID financed in whole or in part out of funds granted by USAID under this Agreement.

Article F: Miscellaneous.

Section F.1. Investment Promotion.

(a) Except as specifically set forth in the Grant or otherwise authorized by USAID in writing, no funds or other support provided hereunder may be used for any activity that involves investment promotion in a foreign country.

(b) In the event the Grantee is requested or wishes to provide assistance in the above area or requires clarification from USAID as to whether the activity would be consistent with the limitation set forth above, the Grantee must notify USAID and provide a detailed description of the proposed activity. The Grantee must not proceed with the activity until advised by USAID that it may do so.

(c) The Grantee must ensure that its employees and subcontractors and sub-recipients providing investment promotion services hereunder are made aware of the restrictions set forth in this clause and must include this clause in all subcontracts and other sub-agreements entered into hereunder.

Section F.2. Voluntary Family Planning. The Parties agree that all USAID funds provided under this Agreement shall be used in accordance with applicable United States policy and statutory requirements relating to voluntary family planning projects,

and that none of the USAID funds provided under this Agreement, or goods or services financed by such funds, may be used for:

- (a) the performance of abortion as a method of family planning or to motivate or coerce any person to practice abortions;
- (b) the performance of involuntary sterilizations as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations; or
- (c) any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilizations as a method family planning.
- (d) USAID will issue implementation letters that more fully describe the requirements of this section.

Section F.3. Prohibition on Assistance to Drug Traffickers.

- (a) USAID reserves the right to terminate this Agreement or take other appropriate measures if the Grantee or a key individual of the Grantee is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking as defined in 22 CFR Part 140. (The "CFR" is the United States Code of Federal Regulations.)
- (b) USAID reserves the right to terminate assistance to, or take or take other appropriate measures with respect to, any participant approved by USAID who is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking as defined in 22 CFR Part 140.
- (c) For any loan over \$1000 made under this Agreement, the Grantee shall insert a clause in the loan agreement stating that the loan is subject to immediate cancellation, acceleration, recall or refund by the Grantee if the borrower or a key individual of a borrower is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking as defined in 22 CFR Part 140.
- (d) Upon notice by USAID of a determination under section (x) and at USAID's option, the Grantee agrees to immediately cancel, accelerate or recall the loan, including refund in full of the outstanding balance. USAID reserves the right to have the loan refund returned to USAID.
- (e) The Grantee agrees not to disburse, or sign documents committing the Grantee to disburse, funds to any sub-recipient designated by USAID ("Designated Sub-recipient") until advised by USAID that: (1) any United States Government review of the Designated Sub-recipient and its key individuals has been completed; (2) any related certifications have been obtained; and (3) the assistance to the Designated Sub-recipient has been approved. In addition, the Grantee shall insert the following clause, or its substance, in its agreement with the Designated Sub-recipient:

“The Grantee reserves the right to terminate this Agreement or take other appropriate measures if the [Sub-recipient] or a key individual of the [Sub-recipient] is found to have been convicted of a narcotic offense or to have been engaged in drug trafficking as defined in 22 CFR Part 140.”

Section F.4. Workers' Rights.

(a) Except as specifically set forth in the Grant or otherwise authorized by USAID in writing, no funds or other support provided hereunder may be used for any activity that involves workers' rights in a foreign country.

(b) In the event the Grantee is requested or wishes to provide assistance in the above area or requires clarification from USAID as to whether the activity would be consistent with the limitation set forth above, the Grantee must notify the USAID and provide a detailed description of the proposed activity. The Grantee must not proceed with the activity until advised by USAID that it may do so.

(c) The Grantee must ensure that all employees and subcontractors and sub-recipients providing employment-related services hereunder are made aware of the restrictions set forth in this clause and must include this clause in all subcontracts and other sub-agreements entered into hereunder.